Here's how to retire abroad — without any tax surprises

- Taxes on Social Security income may still apply overseas.
- Some 9 million U.S. citizens live abroad as of 2016, according to the State Department.
- You could be subject to new tax reporting requirements.

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Kelly Hayes-Raitt traded Los Angeles for a small lakeside town in Mexico and life out of a suitcase — and she's planning on retiring that way.

"I love my house in Santa Monica, but I don't see myself living there again," the 56-year-old writer said. "I'm not sure I can afford it."

She house sits for an expatriate couple, spending half the year in Ajijic, Mexico, just south of Guadalajara.

Hayes-Raitt, author of "How to Become a Housesitter: Insider Tips from the HouseSit Diva," splits the remainder of her time looking after others' homes in southeast Asia and Europe.

She is among the 9 million American citizens who reside overseas, according to the State Department. Nearly half a million receive Social Security benefits while residing in foreign countries.

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Kelly Hayes-Raitt on the shore of Mexico's Lake Chapala, where she housesits every spring.

U.S. retirees love Costa Rica, Mexico and Panama — the three are among the top-ranked retirement destinations, according to International Living's Annual Global Retirement Index — largely because of low costs, accessible health care and beautiful vistas.

However, accountants warn that would-be expats pause and take inventory of their finances before they leave.

Failure to weigh the tax impact of a move overseas could mean you'll be on the hook for an unexpected bill from Uncle Sam, your home state or the tax authority in your new country of residence.

"It's all one big equation," said Douglas Ralph, a CPA with Greenback Expat Tax Services.

"Maybe it will be cheaper to live in Spain, but some of these countries have wealth taxes and different property taxes that arise from owning condos," he said. "These things crop up."

Here's where to begin if you'd like to clean up your taxes before you board that flight.

Know the local rules

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Before you choose your destination, dig into the tax system there.

The U.S. has tax treaties with some foreign nations, which may give residents of those places a tax break in the form of lower rates or certain exemptions.

This isn't always the case.

"Though there may be U.S. tax benefits associated with your residence abroad, a country that operates on a residency-based tax system may charge a high tax on your income simply because you live there," said Katelynn Minott, a CPA with BrightTax.

Understand U.S. federal taxes

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A couple look at Alfama, one of the city's historic neighborhoods, from the Miradouro de Santa Luzia in Lisbon, Portugal.

Get to know how U.S. tax laws will apply to your streams of income.

For instance, the foreign earned income exclusion allows you to exclude up to $104,100 in overseas income in 2018.

That doesn't apply to retirement income, however.

"A common misconception we hear is that pension benefits can be excluded from U.S. taxable income via the foreign earned income exclusion, and this is not the case," said Minott.

Your worldwide income, plus up to 85 percent of your Social Security benefits, may be subject to federal income taxes — regardless of where you live.

U.S. citizens residing in a handful of countries are exempt from federal taxes on Social Security, including Canada, Egypt and Israel.

Cut your ties

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If your U.S. state of residency is a high-income tax locale, prepare for a fight on the way out.

A common stumbling block for retirees who want to move to foreign nations is ensuring that they've slashed ties with their former state of residency.

Failure to make a clean break may mean that your home state will continue to consider you a resident and will hit you up for taxes — even if you're living off your retirement savings in Costa Rica.

If you have a home in a high-tax state, consider selling it. Surrender your driver's license and voter's registration card so that you can show your state that you're out.

"If I move my domicile to Spain, I'm sticking to it," Ralph said. "But the state can come around and say you left these Virginia pieces that imply you might want to come back someday."

Hayes-Raitt decided to maintain her home in California, which she now rents out. She still pays taxes there, too, but she doesn't regret it.

"My income isn't much, so it's almost a moot point," she said. "I like coming home to vote and my health care is based in the U.S."

It doesn't hurt to maintain a U.S. mailing address. Consider signing up for a mail forwarding service. Some companies will also send you scanned images of your correspondence so that you have real-time access to your mail.

Learn about foreign accounts

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Canary Islands, Spain

Do your homework on opening foreign bank accounts if you'll need one for spending — and make sure you know how those banks treat U.S. citizens.

Americans who hold accounts abroad are subject to additional reporting requirements.

They need to file a report of Foreign Bank and Financial Accounts or FBAR with the Treasury's Financial Crimes Enforcement Network. They must also file additional reports with the IRS as they submit their income tax returns.

If you deliberately fail to file an FBAR, you could face a penalty: the greater of $100,000 or 50 percent of the balances in your foreign accounts.

Meanwhile, individuals who fail to file Form 8938 with the IRS — the statement of specified foreign financial assets — could be on the hook for a penalty of up to $10,000 for failure to disclose and a potential maximum penalty of $60,000.

Foreign financial institutions are also required to report on assets held by U.S. account holders as part of the Foreign Account Tax Compliance Act or FATCA.

As a result of the additional compliance requirement, foreign banks have shied away from U.S. clients — and there are U.S. banks that don't want their clients to reside overseas, said Minott.

"It's important to understand whether your U.S. bank allows you to keep operating your mutual funds and continue trading while you're abroad," she said. "We've seen foreign banks freezing assets and shutting out U.S. clients."

Find your overseas tax pros

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Remember: Once you leave the U.S., you'll have two sets of tax laws to follow. Find the right professionals to ensure you're sticking to the codes stateside and abroad.

"There's commonly a conversation between the two sets of tax returns prepared — U.S. and foreign — to ensure that credits and treaty benefits are applied to the extent possible," said Minott.

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